

January 21, 2008

Rating	BUY
Price	Rs647
Target Price	Rs1,011
Implied Upside	56.2%
Sensex	17,605

(Prices as on January 21, 2008)

Trading Data

Market Cap. (Rs bn)	32.4
Shares o/s (m)	50.0
Free Float	56.3%
Avg. Daily Vol ('000)	23.2
Avg. Daily Value (Rs m)	15.4

Major Shareholders

Promoters	35.9%
Foreign	38.9%
Domestic Inst.	11.5%
Public & Others	13.7%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.4)	36.0	51.5
Relative	4.7	22.9	27.3

Price Performance (RIC: TNSL.BO, BB: TANS IN)



Source: Bloomberg

Tanla Solutions

Robust aggregation business inflates revenue

- **Results:** Tanla Solutions reported good Q3FY08 numbers, wherein its revenue grew by 11.2% QoQ to Rs1,193m, EBITDA by 15.2% QoQ to Rs568m and net profit by 18.3% QoQ to Rs433m. The company was able to improve its EBITDA margin primarily due to reduction in its cost of sales & services, which came down to 43.0% of sales from 44.6% in the previous quarter.
- **Robust growth in aggregation business:** Tanla witnessed good growth in its aggregation business, which grew 12.0% sequentially. It contributed 77.2% to the overall revenue of the company as compared to 76.6% in Q2FY08 and 75.6% in Q1FY08. Margins in this segment also expanded by 210bps QoQ to 39.6%.
- **Geographical expansion:** The company is well on its way to global geographical expansion with Spain and South Africa being the next destinations. It has also set-up offices in Dubai and will start providing aggregation services in the US by February 2008.
- **Valuation:** We expect Tanla to report 72.7%, 44.7% and 45.3% profit growth in FY08, FY09 and FY10 respectively. At the CMP of Rs647, the stock quotes at 9.6x FY10E earnings. We maintain BUY rating on the stock with a target price of Rs1,011 (15x FY10E earnings).

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	2,218	4,498	6,988	10,608
Growth (%)	252.0	102.7	55.4	51.8
EBITDA (Rs m)	1,105	2,090	3,193	4,848
PAT (Rs m)	928	1,603	2,320	3,370
EPS (Rs)	18.6	32.1	46.4	67.4
Growth (%)	203.3	72.7	44.7	45.3
Net DPS (Rs)	2.0	3.5	5.0	7.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	49.8	46.5	45.7	45.7
RoE (%)	31.5	25.2	27.2	29.3
RoCE (%)	31.5	25.2	27.2	29.3
EV / sales (x)	12.8	6.2	3.7	2.2
EV / EBITDA (x)	25.7	13.2	8.1	4.9
PE (x)	34.9	20.2	13.9	9.6
P / BV (x)	5.9	4.5	3.3	2.5
Net dividend yield (%)	0.3	0.5	0.8	1.2

Source: Company Data; PL Research

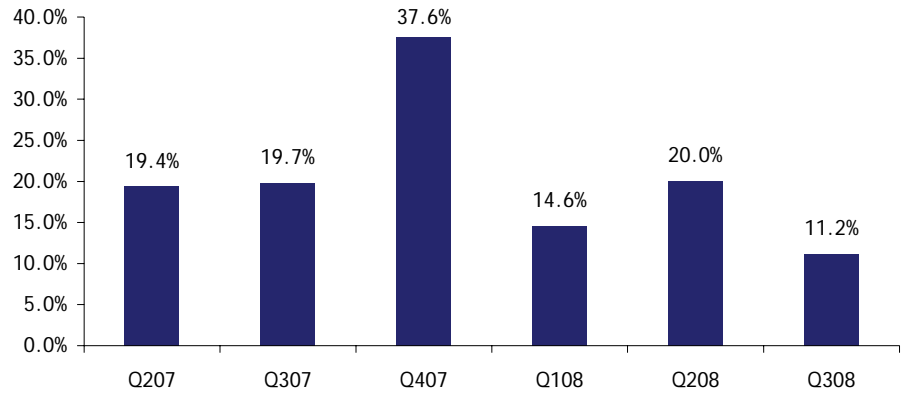
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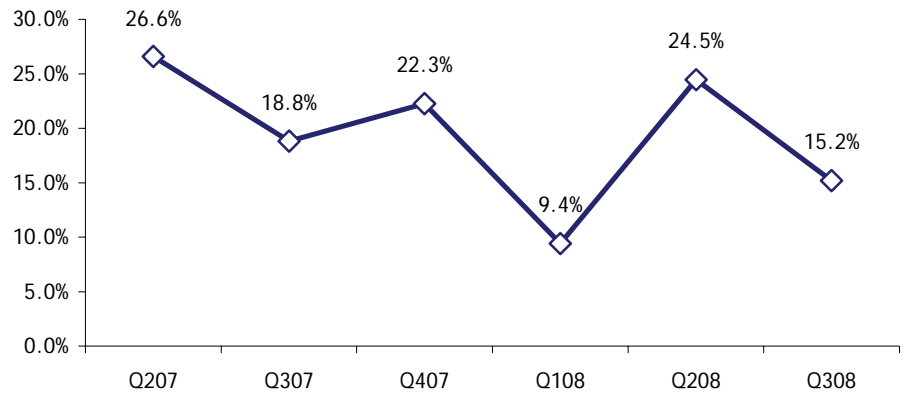
Highlights

Revenue growth was robust at 11.2% QoQ...



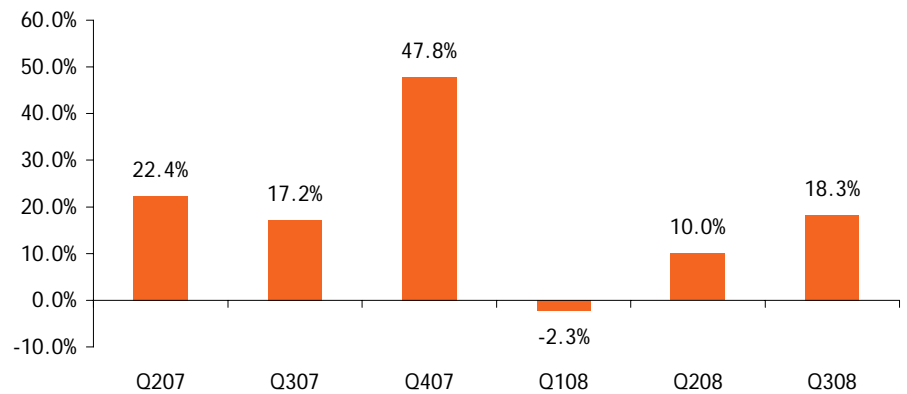
Source: Company Data, PL Research

So was the EBITDA growth at 15.2% QoQ...



Source: Company Data, PL Research

PAT too grew by 18.3% QoQ

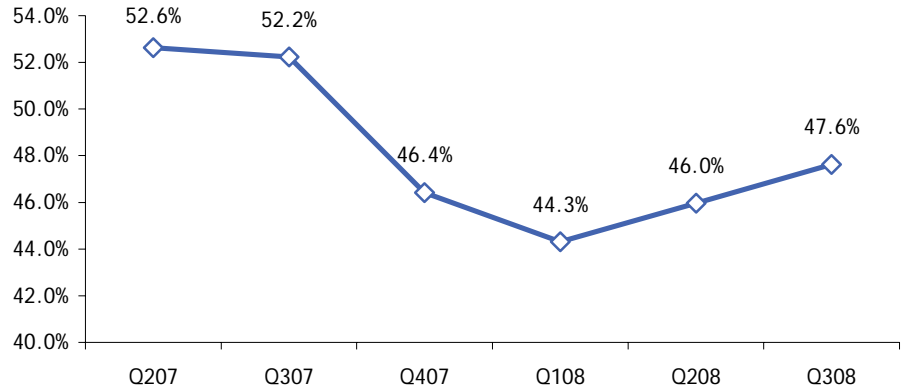


Source: Company Data, PL Research



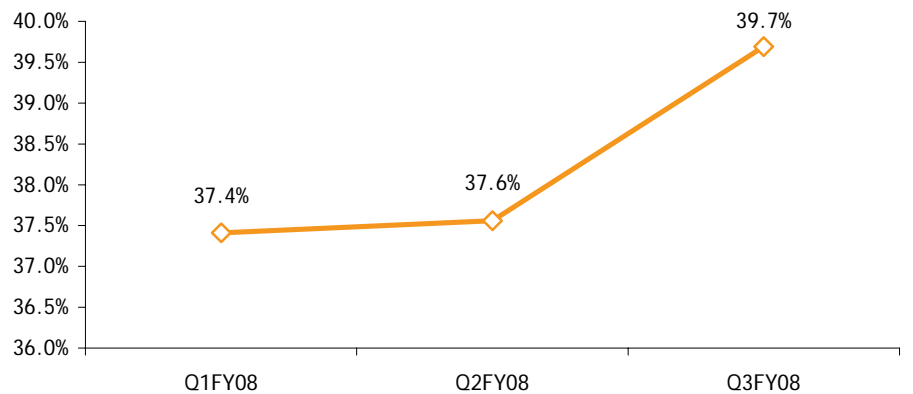
On the positive side...

EBITDA margins started its northward journey



Source: Company Data, PL Research

Largely due to margin expansion in the aggregation space



Source: Company Data, PL Research

Operating Metrics

(%)

Y/e March	Q1FY08	Q2FY08	Q3FY08
Revenue Mix			
Aggregation	75.6	76.6	77.2
Products	12.7	11.1	11.0
Offshore	11.6	12.3	11.9
EBITDA Margins			
Aggregation	37.4	37.6	39.7
Products	89.4	86.7	86.9
Offshore	62.5	62.6	62.8



Q3 FY08 result overview

(Rs m)

Y/e March	Q3FY08	Q2FY08	QoQ gr. (%)	Q3FY07	9MFY08	9MFY07	YoY gr. (%)
Net sales	1,193	1,073	11.2	567	3,161	1,438	119.8
Total expenses	625	580	7.8	271	1,703	695	144.9
Software development	513	478	7.2	240	1,429	602	137.3
Others	112	101	10.7	31	274	93	194.0
Operating profit / EBITDA	568	493	15.2	296	1,458	743	96.3
Depreciation	50	45	12.8	10	128	23	444.6
EBIT	518	449	15.4	286	1,330	719	84.9
Other income	47	41		-	138	1	
PBT	565	490	15.4	286	1,468	720	104.0
Tax	132	124	6.8	56	337	132	154.7
<i>Tax rate (%)</i>	<i>23.4</i>	<i>25.3</i>		<i>19.5</i>	<i>23.0</i>	<i>18.4</i>	
PAT	433	366	18.3	230	1,131	587	92.5
Key ratios							
<i>GPM (%)</i>	<i>57.0</i>	<i>55.4</i>	<i>1.6</i>	<i>57.6</i>	<i>54.8</i>	<i>58.1</i>	<i>(3.3)</i>
<i>OPM (%)</i>	<i>47.6</i>	<i>46.0</i>	<i>1.7</i>	<i>52.2</i>	<i>46.1</i>	<i>51.6</i>	<i>(5.5)</i>
<i>NPM (%)</i>	<i>36.3</i>	<i>34.1</i>	<i>2.2</i>	<i>40.6</i>	<i>35.8</i>	<i>40.9</i>	<i>(5.1)</i>
Adjusted EPS (Rs)	8.7	7.3	18.3	6.8	22.6	17.2	31.4



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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